

Message Text

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ORIGIN EB-11

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FM SECSTATE WASHDC

TO AMEMBASSY BUDAPEST

C O N F I D E N T I A L STATE 119924

E. O. 11652: GDS

TAGS: HU, EFIN, EIND

SUBJECT: JOHNSON ACT, WORLD WAR I DEBT, HUNGARY

REF: BUDAPEST 2118, STATE 090581, BUDAPEST 2310,

BUDAPEST 2357

1. FOLLOWING INFORMATION IS SUPPLIED IN REPLY TO
EMBASSY ACTION REQUESTS PARA 7 OF BUDAPEST 2118.

2. RESOLUTION RECENTLY INTRODUCED, CO- SPONSORED BY
WILBUR MILLS, CALLED ON EXECUTIVE BRANCH TO COLLECT ALL
DEBTS, INCLUDING THOSE ARISING OUT OF WORLD WAR I. THIS
RESOLUTION AND QUARTERLY HEARINGS OF ANOTHER SUBCOMMITTEE
REFLECT CONTINUING PUBLIC INTEREST IN COLLECTING THESE
DEBTS.

3. THIS DEBT WAS NOT INCLUDED IN THE SCOPE OF THE CLAIMS
SETTLEMENT AS DEFINED IN ARTICLE 2 AND THEREFORE IS
QUESTION ENTIRELY SEPARATE FROM CONTEXT OF THE CLAIMS
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AGREEMENT. IT IS NOT, REPEAT NOT, POSSIBLE TO SUBSUME WORLD WAR I DEBT UNDER THE CLAIMS SETTLEMENT OF MARCH 1973 SINCE THIS WOULD BE TANTAMOUNT TO WRITING OFF DEBT, FOR WHICH WE HAVE NO LEGAL BASIS. AS A PRACTICAL ASIDE, TO SUBSUME THIS CLAIM UNDER THE MARCH SETTLEMENT WOULD REDUCE PAYMENTS TO U. S. CLAIMANTS TO UNACCEPTABLE LEVEL AND THEREBY COMPROMISE MARCH SETTLEMENT ITSELF.

4. DEPARTMENT HAS DISCUSSED CONFUSION OVER INCLUSION OF WORLD WAR I DEBT IN CLAIMS AGREEMENT WITH SALANS. HE HAS ASKED US TO POINT OUT TO FEKETE THAT IT IS NOT THE POLICY OF THE USG TO SEEK SETTLEMENT OF WORLD WAR I DEBT IN THE CONTEXT OF SETTLEMENT OF CLAIMS FOR NATIONALIZATION. WE HAVE NOT INCLUDED WORLD WAR I DEBT IN CLAIMS SETTLEMENT AGREEMENTS CONCLUDED WITH OTHER EAST EUROPEAN COUNTRIES. THE TWO DELEGATION CHAIRMEN, FEKETE AND SALANS, WERE NOT AWARE OF WORLD WAR I DEBT BECAUSE THEY WERE NOT BRIEFED ON THE SUBSTANCE OF THIS CLAIM SINCE IT WAS NOT CONSIDERED AN ISSUE IN THE NEGOTIATIONS."

5. HISTORY OF THE WORLD WAR I DEBT IS AS FOLLOWS:

A. HUNGARIAN INDEBTEDNESS AROSE FROM POSTWAR PURCHASES OF SURPLUS FLOUR FROM THE U. S. GRAIN CORPORATION. ON APRIL 25, 1924, THE USG ENTERED INTO A FUNDING AGREEMENT WITH GOH, WITH REPAYMENT OVER 62 YEARS PAYABLE SEMI- ANNUALLY WITH INTEREST AT 3 PERCENT DURING THE FIRST 10 YEARS, AND 3-1/2 PERCENT THEREAFTER. ON MAY 27, 1932, PURSUANT TO HOOVER MORATORIUM, PAYMENT WAS POSTPONED FOR FY 1932. ON NOVEMBER 1, 1932, GOH INFORMED THE U. S. THAT LACK OF AVAILABILITY OF FOREIGN EXCHANGE WOULD PRECLUDE IT FROM MAKING NEXT PAYMENT UNDER 1924 AGREEMENT DUE DECEMBER 15, 1932.

B. IN 1933, GOH DEPOSITED HUNGARIAN TREASURY CERTIFICATE IN PENGOS EQUIVALENT TO DOLLAR AMOUNT DUE FOR INTEREST IN DECEMBER 1933. SAME FOR SEMI- ANNUAL INTEREST FOR 1934, 1935, 1936 AND JUNE 1937. EACH CERTIFICATE WAS TO BEAR INTEREST AT 2 PERCENT.

C. ON AUGUST 15, 1937, GOH ACKNOWLEDGED ITS DEBTS
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TO USG AND PROPOSED TO PAY DOLS. 19,656.32 PER YEAR IN SEMI- ANNUAL PAYMENTS OVER THREE YEARS, ON ACCOUNT OF AMOUNTS OWED UNDER 1924 AGREEMENT AND 1932 POSTPONEMENT. USG ACCEPTED WITHOUT PREJUDICE TO AMOUNTS DUE. GOH MADE SEMI- ANNUAL PAYMENTS UNDER THIS PROPOSAL FROM DECEMBER 15, 1937, THROUGH DECEMBER 15, 1941.

D. TREASURY RECORDS CARRY ORIGINAL INDEBTEDNESS AT DOLS. 1,982,555.50. INTEREST THROUGH JUNE 30, 1972, TOTALS DOLS. 3,107,296.51. CUMULATIVE PAYMENTS IN INTERWAR YEARS CAME TO DOLS. 73,995.50 PRINCIPAL AND DOLS. 482,924.26 INTEREST. TOTAL OUTSTANDING IS DOLS. 4,532,932.25, OF WHICH DOLS. 871,665.00 REPRESENTS UNMATURED PRINCIPAL. PRINCIPAL AND INTEREST DUE AND UNPAID AS OF JUNE 30, 1972 IS DOLS. 3,661,267.25.

6. USG POLICY IS THAT THESE ARE VALID DEBTS. FYI- THE USG IS NOT CURRENTLY NEGOTIATING WITH ANY DEBTOR

GOVERNMENT OVER THE ISSUE OF WORLD WAR I DEBTS. OF ALL WORLD WAR I DEBTORS, FINLAND IS THE ONLY COUNTRY WHICH HAS MET ITS PAYMENTS ON WORLD WAR I DEBTS, A GESTURE WHICH HAS GAINED FOR THAT COUNTRY CONSIDERABLE PRESTIGE WITH THE U. S. PUBLIC OVER THE YEARS. PURSUANT TO ACT OF CONGRESS OF AUGUST 24, 1949, FINLAND'S PAYMENTS ARE MADE AVAILABLE FOR EDUCATION AND TRAINING OF AMERICAN AND FINNISH NATIONALS UNDER A CULTURAL EXCHANGE PROGRAM.

7. AS A RELATED MATTER, EMBASSY IS UNDOUBTEDLY AWARE THAT THE TRADE REFORM ACT WOULD REPEAL THE JOHNSON ACT. WHILE REPEAL OF THE JOHNSON ACT WOULD NOT SETTLE HUNGARY'S OBLIGATION, IT WOULD REMOVE THIS PRACTICAL PROBLEM ASSOCIATED WITH DEFAULT BY HUNGARY. NATURALLY, WE ARE UNABLE TO ABSOLUTELY GUARANTEE PASSAGE OF THIS PART OF THE ADMINISTRATION'S TRADE LEGISLATION PACKAGE; WE CAN ASSURE THE GOH OF OUR EFFORTS TO GAIN PASSAGE. FROM APPLICATION OF JOHNSON ACT. SO, OF COURSE, WOULD NEGOTIATED SETTLEMENT OF DEBT. EN FYI.

8. EMBASSY SHOULD TRANSMIT CONTENTS OF PARAS 4, 5, AND 6 TO FEKETE ON INFORMAL BASIS. DEPARTMENT CONCURS IN CONFIDENTIAL

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EMBASSY RECOMMENDATION REFTEL B THAT USG SHOULD NOT MAKE FORMAL DEMAND FOR NEGOTIATIONS TOWARD SETTLEMENT AT THIS TIME. ROGERS

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